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C O N F I D E N T I A L SECTION 01 OF 02 JERUSALEM 000489

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TAGS: [ECON](#) [PREL](#) [EAID](#) [PHUM](#) [KWBG](#) [ETRD](#) [IS](#) [PTER](#) [EG](#)
SUBJECT: GAZA: TUNNEL ACTIVITY PICKS UP AS RESTRICTIONS ON
HUMANITARIAN AID TIGHTEN

REF: JERUSALEM 440

Classified By: Consul General Jake Walles, Reasons 1.4 (b) and (d)

¶1. (C/NF) Summary: ConGen contacts in Gaza report that smuggling into Gaza via the tunnels is increasing. Contacts say that large shipments of fuel, food, and electronics from Egypt were transferred into Gaza March 14-19. At the same time, the GOI and Hamas are each making it difficult for aid agencies and donors, including USAID, to get humanitarian goods into Gaza. The banking sector is increasingly moribund as cash supplies have dwindled and economic activity has shifted increasingly to the informal sector. End summary.

Tunnel trade up

¶2. (C/NF) Gaza fuel sector executive Mahmoud Khozander (protect throughout) told Econoff on March 19 that shipments through the Gaza-Egypt tunnels have increased in recent days. Khozander said that live chickens and livestock, along with numerous electronic and food items also passed into Gaza via the tunnels March 14-19. (Note: OCHA reported on March 12 that the GOI import ban on live animals constrains breeding efforts in the livestock sector and makes the market prices of beef, lamb, and chicken unaffordable to the majority of consumers - and therefore attractive to the smugglers. End note.) NGO and USG contractor contacts in Gaza confirmed on March 18 that more items have been smuggled to Gaza via the tunnels in recent days.

More fuel, lower prices

¶3. (C/NF) Khozander told Econoff on March 18 that there are two or three fuel lines in operation under the Egyptian border, importing a total of 40,000-60,000 liters/day of diesel and 50,000-65,000 liters/day of gasoline since March 14. He said that the price of fuel in Gaza on March 18 was 50 percent below what was in early March, a result of increased shipments via the tunnels. (Note: The only vehicle fuel - gasoline and diesel - allowed in via the crossings with Israel since November 2008 has been shipments to support UN, hospital, and critical infrastructure operations. Cooking gas is being imported from Israel, but at rates estimated to meet only forty percent of demand. End note.)

GOI clamps down

14. (C) ConGen contacts at the Kerem Shalom crossing report on March 19 that the GOI has reduced the number of trucks allowed to cross per day from 120 to approximately 80. Contacts report being told that shipments will be further reduced in the coming weeks to 50-60 truckloads/day. A number of USAID-funded shipments were prevented from entering Gaza this week due to the inclusion of items like biscuits, canned tuna, halva, jam, and tomato paste, despite the fact that all these items had been allowed in previously. (Details of the USAID shipment requests and the items denied are available on ConGen Jerusalem's unclassified intelink site: http://www.intelink.gov/communities/state/pal_econ)

Hamas also steps in

15. (C/NF) A ConGen contact at Kerem Shalom reported on March 19 that Hamas's "ministry of national economy" began to stop trucks on the Gaza side of the crossing, demanding that importing agencies meet with "ministry" officials to coordinate disbursements. He said the more aggressive posture resulted from a Gaza trader who successfully smuggled in 22 pallets of new clothing under cover of a humanitarian shipment by the UK-based Islamic Relief Agency. The trader reportedly sold the clothing in Gaza markets in less than two days - for an estimated 6000 NIS/pallet. (Note: The GOI has not permitted imports of new clothing in over a year and a half. End Note.) As a result, Hamas officials have publicly called for everyone in Gaza "to receive equal treatment under the siege" and to require importers to coordinate disbursements.

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Banking sector moribund
as liquidity dries up

16. (C) Bank branches in Gaza began disbursing PA salaries on March 15 (though salaries had been paid in the West Bank more than a week earlier). Banks are paying out in limited amounts and in a combination of currencies based on individual bank's available holdings. No bank notes have entered Gaza since the February 6 transfer of 175 million NIS. Bank executives told EconOff and Treasury Attache on March 19 that liquidity in the Gaza branches is at the same level it was in December 2008, when banks were forced to close for a few days. Bank executives note decreasing re-deposit rates contribute to their liquidity crisis.

Basic services still lag

17. (SBU) WHO Gaza director Mahmoud Daher told Econoff on March 19 that hospitals and clinics have sufficient pharmaceutical drugs and surgical kits but they lack spare parts for machines. He underscored that health care facilities in Gaza are in need of repairs and upgrades of windows, doors, elevators, and other basic infrastructure. OCHA reported on March 16 that 90 percent of the Gaza population experiences intermittent power supply, with power cuts of 4-5 hours/day. The Gaza power utility reported on March 15 that Gaza has an overall electricity deficit of 19 percent.
WALLES